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FACTSHEET

Market exposure

Build a portfolio that meets your needs

The earlier you commit to an investment strategy, the longer your money can work in the market. However, the world is an uncertain place at the moment. The deadline for the United Kingdom's withdrawal from the EU is edging closer, and there is also the ongoing threat of an all-out trade war breaking out.

Investing should be for the long term. Why? Because markets and the economy have a tendency to rise over time. For investors, this should mean a return on investment for people who can ride out the ups and downs along the way – a reward for the extra risk they're taking.

KEY DRIVERS OF LONG-TERM RETURNS

Fundamentals and changes in value are the key drivers of long-term returns, and they are possible to forecast with a degree of accuracy rather than trying to time the markets or second-guess rises and falls in prices.

But throughout history, we have seen periods of extreme volatility when there have been rallies and sell-offs time and time again for a variety of reasons. With long-term investing, you can expect cycles – periods of falling prices followed by a recovery. A key to successful investing is being comfortable knowing that there will be falls as well as rises in the market.

CYCLICAL IN NATURE AND PRONE TO VOLATILITY

Many people will remember the dot-com bubble of 2001 and the global financial crisis of 2007. However, stock markets are cyclical in nature, and although prone to volatility, markets and wider economies have a tendency to rise over time. This applies to everything from share prices and earnings to wages and the price of household goods.

On the other hand, short-term returns are driven by changes in valuation and investor sentiment. These are impossible to forecast consistently, and trying to time the markets can also mean potentially locking in losses and missing out on gains.

RETURNS GENERATING MORE RETURNS

Compounding is one of the reasons long-term investing has the potential to give such great returns. This is the snowballing effect of your returns generating more returns. In the stock markets, compounding is usually a result of reinvesting dividend income. Companies are collectively owned by their shareholders, and their board members may agree to pay investors their share of the profits through a dividend.

Dividend-paying shares are a staple of most income-seeking investors' portfolios. But when the income is reinvested, we can see a significant increase in total return over time. This makes them ideal for investors who are seeking growth – especially as a stable and growing dividend is seen as a sign of good corporate governance.

POLITICAL UNCERTAINTY OR VOLATILITY

When people feel nervous about investing – perhaps due to political uncertainty or volatility in the stock market – a common reaction is to sell their investments and keep their money in cash. Cash is seen as a 'safe' asset, but it does leave investors open to the risk of inflation. Inflation erodes the buying power of your savings over time. Your account balance doesn't change, but you can buy less with your money.

Although markets have been volatile and there remains uncertainty over the global political future, there will always be reasons not to invest and scenarios to worry about. However, you must remember that every period of time spent out of the stock markets is a period of time potentially missing out on returns.

WE DO THE HARD WORK FOR YOU

If you have a long time horizon and can accept the fact that markets tend to rise and fall along the way, whatever the future holds, we're here to help you build the portfolio that meets your needs. When it comes to managing your money, the financial markets can be a daunting place – that's why we do the hard work for you. To discuss your requirements, please contact us.